

Global Aviation Returns to Profitability but Europe Still in the Red



Berlin - The International Air Transport Association (IATA) expects airlines to post a global profit of \$2.5 billion in 2010. This is a major improvement compared with IATA's previous forecast released in March of a \$2.8 billion loss.

Industry revenues are forecast to be \$545 billion in 2010. This is up from the \$483 billion in 2009, but still below the \$564 billion achieved in 2008. "The global economy is recovering from the depths of the financial crisis much more quickly than could have been anticipated. Airlines are benefiting from a strong traffic rebound that is pushing the industry into the black. We thought that it would take at least three years to recover the \$81 billion (14.3%) drop in revenues in 2009. But the \$62 billion top line improvement this year puts us about 75% on the way to pre-crisis levels," said Giovanni Bisignani, IATA's Director General and CEO.

"The \$2.5 billion profit comes with some important health warnings. First, this represents a net margin of just 0.5%, which is a long way from sustainable profitability. Second, a major part of the global industry is still posting big losses. A stagnating economy, strikes, natural disasters, and a currency crisis have left European carriers struggling with an anticipated \$2.8 billion loss," said Bisignani.

Highlights of the revised forecast include:

Traffic: Passenger traffic is forecast to grow by 7.1% in 2010 while cargo traffic will expand by 18.5%. This is significantly better than the previous forecast growth of 5.6% and 12.0% respectively. Over the first quarter, the industry was growing at an annualized rate of 9% for passenger and 26% for cargo. Much of the cargo growth is associated with inventory re-stocking. As this cycle completes with normal inventory to sales ratios, we are expecting moderate growth driven by consumer spending.

Yields: Yields are now forecast to grow by 4.5% for both the cargo and passenger business. This is a significant improvement from the previously forecast yield growth of 2.0% in passenger markets and 3.1% for cargo. The 4.5% rate is just ahead of consumer price inflation. This is contributing strongly to the 13% rise in revenues forecast for 2010. Despite the increase, revenues remain 4% below their 2008 peak.

Load Factors: New capacity will be added to the global system as a result of the 1,340 aircraft that are scheduled to join the fleet in 2010. Of these, approximately 500 are replacement aircraft while the rest will be new capacity. Latent capacity is also present as a result of reduced long-haul fleet utilization which remains several percentage points below pre-crisis levels. Over the year, we expect an average demand improvement of 10.2% (passenger and cargo) to be met with a 5.4% increase in capacity. This will support load factors which remained near record levels for most of the first quarter.

Ash: Air space closures following the eruption of an Icelandic volcano dented the recovery in April as a result of over 100,000 flight cancellations associated with European markets over six days.

While uncertainty remains with the potential for future eruptions, it appears that this was a short-lived shock. Early May figures show a rebound in traffic for European carriers.

Premium Travel: Despite earlier fears that the financial crisis would result in a structural change to the premium market, it now appears to be recovering cyclically in many regions—alongside improvements in global trade. Premium travel was rebounding at an annualized growth rate of 20% over the first quarter and economy travel is now back to pre-recession levels. In the absence of a strong improvement in consumer confidence that would be needed to drive leisure traffic growth, it would appear that business travel also supported some of the recovery in the economy cabin.

Fuel: Fuel costs continue in line with the previous forecast expectations. IATA maintained its expectation for an average annual oil price of \$79/barrel (Brent) in 2010.

Regional Differences

Regional differences in airline performance sharpened with this forecast. “The recovery from this crisis is asymmetrical. Worsening conditions in Europe are in sharp contrast to improvements in all other regions,” said Bisignani. Highlights include:

Asia-Pacific: Asia-Pacific carriers continue to benefit from strong regional growth. Against a global GDP growth expectation of 2.9%, the Asian economy (excluding Japan) is expected to grow by 7% this year. China will outpace that with an expected 9.9% GDP expansion. As a result, the region’s carriers are expected to deliver the largest profit at \$2.2 billion. This is more than double the previously forecast \$900 million in March and a major reversal from the \$2.7 billion loss in 2009.

North America: North American carriers are expected to return a profit of \$1.9 billion. This is a major reversal from the previously forecast \$1.8 billion loss, and the \$2.7 billion that the region’s carriers lost in 2009. The US economy is growing with a 3.3% GDP expansion. Carriers are improving efficiencies as a result of demand growth, capacity cuts and domestic mergers.

Latin America: Latin American carriers will show a profit of \$900 million, up slightly from the \$800 million previously forecast. Having posted a \$500 million profit in 2009, Latin America will be the only region to post two consecutive years of profit. The region’s commodities are closely linked with Asian growth and supported by a 3.9% GDP expansion this year.

Middle East: Middle Eastern carriers are expected to post a profit of \$100 million—their first since 2005. This is significantly better than the previously forecast \$400 million loss and the \$600 million that the region’s carriers lost in 2009. GDP growth of 4.3% is outstripping the global average and Gulf carriers continue to gain market share through their hubs for Europe to Asia-Pacific traffic even as capacity is being added at a more cautious rate.

Africa: African carriers are expected to post a \$100 million profit, their first since 2002. This reverses the \$100 million loss previously forecast in March and the \$100 million that the region lost in 2009.

Europe: Europe will be the only region in the red with a \$2.8 billion loss. This is a downgrading from the \$2.2 billion loss previously forecast in March, although it is an improvement on the \$4.3 billion that the region lost in 2009. GDP growth of 0.9% is not enough to support a recovery and the currency crisis clouds the future with uncertainty. Moreover, 70% of the \$1.8 billion loss in revenue as a result of the volcanic ash crisis was borne by European carriers. A series of labor strikes and strike threats have also impacted the region’s performance.

“Seeing black on the bottom line is a great achievement. The resilience of the industry has been

strengthened by a decade of cost cutting, restructuring and re-engineering processes. IATA's programs have contributed to this with \$47 billion in cost savings since 2004 with efficiencies in safety auditing, fuel management, infrastructure costs, and Simplifying the Business," said Bisignani.

"But even with all of our hard work, the result is just a 0.5% margin that does not even cover our cost of capital. The industry is fragile. The challenge to build a healthy industry requires even greater alignment of governments, labor, and industry partners. They must all understand that this industry needs to continue to reduce costs, gain efficiencies and be able to re-structure itself if it is to be sustainably profitable. We must all be prepared for a greater change," said Bisignani.

Highlights Comparing Previous Forecast for 2010

March Forecast

June Forecast

Revenues

\$522 billion

\$545 billion

Passenger demand growth

5.6%

7.1%

Cargo demand growth

12.0%

18.5%

Passenger Yields

+2.0%

+4.5%

Cargo Yields

+3.1%

+4.5%

Oil

\$79/barrel

\$79/barrel

Fuel cost

\$132 billion

\$140 billion

Net Profit

-\$2.8 billion

+\$2.5 billion

Net % margin

-0.5%

+0.5%

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